

Markets This Week Ahead of the Open

Key Takeaways

- Despite threats of escalation to start the week, the U.S. and Iran were able to reach a standstill
 - Following announcements of a ceasefire, equities advanced while yields fell, signaling the end of the current risk-off episode
 - Headline CPI hits its highest reading since March 2022 after a prolonged surge in energy prices
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This past week equities and broad market indexes advanced higher following a resolution being announced between the U.S. and Iran in the form of a ceasefire. The announcement followed a series of escalations from President Trump early in the week, though these tensions were quickly resolved.

Throughout this entire conflict, there had been one focal point outside of surging oil prices – duration. Broadly across markets, investors grew concerned regarding the length of these tensions, and what their implications could mean down the line. Heightened inflation, structural shifts to oil distributions, and the response by central banks were just some of these concerns. While a resolution or peace talks wouldn't immediately dispose of these problems, they would alleviate the negative sentiment surrounding them, and that's exactly what Tuesday's announcement of a ceasefire. For the first time in weeks, investors now had the opportunity to think about what would follow a resolution, rather than what was needed to see one. This shift in underlying sentiment allowed for a rotation out of risk-off assets and into risk-on assets, which was what allowed broad market indexes and metals to advance on the week. On the other hand, while yields continued to decline, the dollar had advanced even further, a pattern that has become routine during peace talks.

Outside of the ceasefire, what also caught investors attention this week was the BLS's CPI report released on Friday. The report saw headline CPI, which includes energy and food, rise 3.3% on an annual basis, its highest reading since March 2022. Core CPI rose 2.6% on the year, compared to 2.5% last month. Evident from its name, the advance in headline CPI was strongly driven by a surge in energy prices, which were up 10.9% from February, the largest monthly increase since April 2005. The gasoline index, another metric measured by the BLS, was up 21.2% on the month as well, the largest increase since the CPI measure was first established in 1967. While the core CPI is more emphasized by markets, headline CPI still remains important, and this past month it was what stole the headlines.

Moving forward, the main concern now resides on the fragility of the agreed-upon ceasefire. All though this had been established Tuesday night, attacks still continued within Lebanon Friday morning, to which Iran responded by further tightening its strait. With the U.S., led by JD Vance, set to meet with Iran on Sunday, investors are looking for further confirmation that a resolution is imminent. This talks aims to air out everything either side hopes for in a resolution, and with that in mind, everything is at stake.